

AUDITORS' REPORT

**TO : THE SHAREHOLDERS OF ARAB NATIONAL BANK
(SAUDI JOINT STOCK COMPANY)**


We have audited the balance sheet of Arab National Bank (the Bank) as at 31 December 2004 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, including the related notes. These financial statements are the responsibility of the Bank's management and have been prepared by them in accordance with the provisions of the Regulations for Companies and the Banking Control Law and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

In our opinion, the financial statements taken as a whole:

- present fairly, in all material respects, the financial position of the Bank as at 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards, and
- comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association in so far as they affect the preparation and presentation of the financial statements.

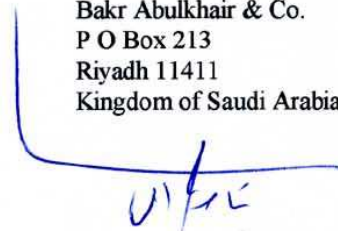
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Riyadh : 1 Dhul-Hijja 1425H
(12 January 2005)

BALANCE SHEET
As at December 31, 2004 and 2003

	<u>Notes</u>	<u>2004</u> <u>SAR' 000</u>	<u>2003</u> <u>SAR' 000</u>
ASSETS			
Cash and balances with SAMA	3	7,061,456	1,677,826
Due from banks and other financial institutions	4	4,731,873	4,194,690
Investments, net	5	21,198,210	21,481,119
Loans and advances, net	6	28,557,967	20,172,233
Other real estate		191,899	201,297
Fixed assets, net	7	382,415	323,084
Other assets	8	1,211,967	1,150,641
Total assets		<u><u>63,335,787</u></u>	<u><u>49,200,890</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	10	9,820,827	9,108,569
Customer deposits	11	46,315,710	33,722,994
Other liabilities	12	2,404,832	2,391,986
Total liabilities		<u><u>58,541,369</u></u>	<u><u>45,223,549</u></u>
Shareholders' equity			
Share capital	13	2,000,000	1,800,000
Statutory reserve	14	2,000,000	1,800,000
General reserve	14	550,000	200,000
Other reserves	15	226,759	170,728
Retained earnings		17,659	6,613
Total shareholders' equity		<u><u>4,794,418</u></u>	<u><u>3,977,341</u></u>
Total liabilities and shareholders' equity		<u><u>63,335,787</u></u>	<u><u>49,200,890</u></u>

The accompanying notes 1 to 38 form an integral part of these financial statements

STATEMENT OF INCOME

For the years ended December 31, 2004 and 2003

	<u>Notes</u>	<u>2004 SAR' 000</u>	<u>2003 SAR' 000</u>
Special commission income	17	2,456,310	1,991,496
Special commission expense	17	570,032	469,381
Net special commission income		1,886,278	1,522,115
Fees from banking services, net	18	422,207	262,146
Exchange income		93,106	92,375
Trading income, net	19	9,182	14,156
Dividend income	20	1,140	-
Gains on investments, net	21	8,416	2,078
Other operating income	22	7,601	7,560
Total operating income		2,427,930	1,900,430
Salaries and employee related expenses		568,857	500,822
Rent and premises related expenses		56,297	50,156
Depreciation and amortization	7	60,065	63,609
Other general and administrative expenses		247,945	202,083
Provision for possible credit losses	6	321,221	316,790
Other operating expenses	23	6,744	454
Total operating expenses		1,261,129	1,133,914
Net income		1,166,801	766,516
Earnings per share (in SAR)	24	29.17	19.16

The accompanying notes 1 to 38 form an integral part of these financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2004 and 2003

<u>2004</u>	<u>Notes</u>	<u>Share capital SAR' 000</u>	<u>Statutory reserve SAR' 000</u>	<u>General reserve SAR' 000</u>	<u>Other reserves SAR'000</u>	<u>Retained earnings SAR' 000</u>	<u>Total SAR' 000</u>
Balance at beginning of the year		1,800,000	1,800,000	200,000	170,728	6,613	3,977,341
Bonus share issue	14	200,000	-	(200,000)			-
Net income		-	-	-	-	1,166,801	1,166,801
Transfer to statutory reserve	14	-	200,000	-	-	(200,000)	-
Transfer to general reserve	14	-	-	550,000	-	(550,000)	-
Gross dividend	25	-	-	-	-	(390,032)	(390,032)
Net changes in fair value and cash flow hedges	15	-	-	-	56,031	(15,723)	40,308
Balance at end of the year		<u>2,000,000</u>	<u>2,000,000</u>	<u>550,000</u>	<u>226,759</u>	<u>17,659</u>	<u>4,794,418</u>
 <u>2003</u>							
Balance at beginning of the year		1,800,000	1,650,000	-	92,554	5,748	3,548,302
Net income		-	-	-	-	766,516	766,516
Transfer to statutory reserve	14	-	150,000	-	-	(150,000)	-
Transfer to general reserve	14	-	-	200,000	-	(200,000)	-
Gross dividend	25	-	-	-	-	(415,651)	(415,651)
Net changes in fair value and cash flow hedges	15	-	-	-	78,174	-	78,174
Balance at end of the year		<u>1,800,000</u>	<u>1,800,000</u>	<u>200,000</u>	<u>170,728</u>	<u>6,613</u>	<u>3,977,341</u>

The accompanying notes 1 to 38 form an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the years ended December 31, 2004 and 2003

	Notes	2004 SAR' 000	2003 SAR' 000
OPERATING ACTIVITIES			
Net income		1,166,801	766,516
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of discounts and amortization of premium on investments, net		(32,094)	(39,652)
Gains on investments, net		(8,416)	(2,078)
Depreciation and amortization		60,065	63,609
Loss (gain) on disposal of fixed assets and other real estate		35	(470)
Provision for decline in value of fixed assets and other real estate		6,545	-
Provision for possible credit losses		321,221	316,790
		<u>1,514,157</u>	<u>1,104,715</u>
Net (increase) decrease in operating assets:			
Statutory deposits with SAMA	3	(370,172)	(164,535)
Due from banks and other financial institutions maturing after ninety days		-	250,000
Trading securities		(101,107)	(97,952)
Loans and advances		(8,701,423)	(4,471,275)
Other real estate		6,630	(58,402)
Other assets		(257,409)	161,142
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		712,258	(932,160)
Customer deposits		12,592,346	5,563,444
Other liabilities		474,109	(152,966)
		<u>5,869,389</u>	<u>1,202,011</u>
Net cash from operating activities			
INVESTING ACTIVITIES			
Proceeds from sales of and matured investments		2,117,562	4,555,020
Purchase of investments		(1,695,979)	(6,788,403)
Purchase of fixed assets		(138,489)	(88,288)
Proceeds from sale of fixed assets		15,282	1,040
		<u>298,376</u>	<u>(2,320,631)</u>
Net cash from (used in) from investing activities			
FINANCING ACTIVITIES			
Dividends paid		(617,124)	(444,788)
		<u>(617,124)</u>	<u>(444,788)</u>
Net cash used in financing activities			
Increase (decrease) in cash and cash equivalents		5,550,641	(1,563,408)
Cash and cash equivalents at beginning of the year		4,637,056	6,200,464
		<u>4,637,056</u>	<u>6,200,464</u>
Cash and cash equivalents at end of the year	26	<u>10,187,697</u>	<u>4,637,056</u>
<u>Supplemental non cash information</u>			
Net changes in fair value and cash flow hedges		<u>40,308</u>	<u>78,174</u>

The accompanying notes 1 to 38 form an integral part of these financial statements

1. General

Arab National Bank (a Saudi Joint Stock Company, the Bank) was formed pursuant to Royal Decree No. M/38 dated Rajab 18,1399H (June 13, 1979). The Bank commenced business on February 2, 1980 by taken over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated Rabi Awal 1,1400H (January 19, 1980) through 114 branches (2003: 114 branches) in the Kingdom of Saudi Arabia and one branch in the United Kingdom, employing 2,491 employees (2003: 2,163) . The address of the Bank's head office is as follows:

Arab National Bank
P.O. Box 56921
Riyadh 11564, Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking services.

2. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below:

a) Basis of presentation

The financial statements are prepared in accordance with the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), and International Financial Reporting Standards, including International Accounting Standards issued by the International Accounting Standards Board and interpretations issued by the International Financial reporting interpretation Committee. The Bank also prepares its financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

The financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives and trading and available for sale investments. In addition, as explained fully in the related notes, assets and liabilities that are hedged (in a fair value hedging relationship) are carried at fair value to the extent of the risk being hedged.

The accounting policies are consistent with those used in the previous year.

b) Trade date accounting

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Bank commits to purchase or sell the assets. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

c) Derivative financial instruments and hedging

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate options (both written and purchased) are initially measured at cost and are subsequently re-measured at fair value. All derivatives are carried at their fair value in assets where the fair value is positive, and in liabilities where the fair value is negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting described below.

For the purpose of hedge accounting, hedges are classified into two categories; (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability, or to a forecasted transaction or firm commitment that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective i.e. the changes in fair value or the cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At the inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

In relation to fair value hedges which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and is recognized in the statement of income. Where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortized to the statement of income over the remaining life of the instrument.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge, is recognized initially in other reserves under shareholders' equity and the ineffective portion, if any, is recognized in the statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the statement of income in the same period in which the hedged transaction affects the statement of income. Where the hedged forecasted transaction or firm commitment results in the recognition of an asset or a liability, then at the time the asset or liability is recognized, the associated gains or losses that had previously been recognized in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, gains or losses recognized initially in other reserves are transferred to the statement of income in the period in which the hedged transaction impacts the statement of income.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves, is retained in shareholders' equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in other reserves is transferred to the statement of income for the period.

d) Foreign currencies

The financial statements are denominated in Saudi Riyals. Transactions in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities at year end, denominated in foreign currencies, are translated into Saudi Riyals at the exchange rates prevailing at the balance sheet date.

Realized and unrealized gains or losses on exchange are credited or charged to operating income.

e) Offsetting

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Bank intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

f) Revenue recognition

Special commission income and expense are recognized in the statement of income on the accrual basis and include premiums amortized and discounts accreted during the year. Fees and exchange income from banking services are recognized when contractually earned. Dividend income is recognized when declared.

g) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos), continue to be recognized in the balance sheet and are measured in accordance with related accounting policies for trading, originated debt, available for sale and held to maturity investments. The counterparty liability for amounts received under these agreements is included in "due to banks and other financial institutions" or "customer deposits", as appropriate. The difference between sale and repurchase prices is treated as special commission expense and is accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos), are not recognized in the balance sheet, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in "cash and balances with SAMA", "due from banks and other financial institutions" or "loans and advances", as appropriate. The difference between purchase and resale prices is treated as special commission income and is accrued over the life of the reverse repo agreement.

h) Investments

All investment securities are initially recognized at cost, being the fair value of the consideration given, including acquisition charges associated with the investments. Premiums are amortized and discounts are accreted using the effective yield method and are taken to special commission income.

For securities that are traded in organized financial markets, fair value is determined by reference to exchange quoted mid market prices at the close of business on the balance sheet date.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security.

Following the initial recognition of the various classes of investment securities, the subsequent period end reporting values are determined as follows:

i) Held for trading

Securities which are held for trading are subsequently measured at fair value and any gain or loss arising from a change in fair value is included in the statement of income in the period in which it arises.

ii) Available for sale

Investments which are classified as "available for sale" are subsequently measured at fair value. For an available for sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized directly in other reserves under shareholders' equity until the investment is de-recognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the statement of income for the period.

Available for sale investments where fair value cannot be reliably measured are carried at amortized cost.

iii) Originated debt

Securities that are purchased directly from the issuer, other than those purchased with the intent to be sold immediately or in the short term, are classified as originated debt investments. Originated debt investments where fair values have not been hedged are stated at amortized cost, less provision for impairment. Any gain or loss is recognized in the statement of income when the investment is derecognized or impaired.

iv) Held to maturity

Investments which have fixed or determinable payments and are intended to be held to maturity, are subsequently measured at amortized cost, less provision for impairment in their value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognized in the statement of income when the investment is derecognized or impaired.

i) Loans and advances

All loans and advances are initially measured at cost.

Loans and advances which are held for trading are subsequently measured at fair value and gains or losses arising from changes in fair value are included in the statement of income in the period in which they arise.

Loans and advances originated by the Bank for which fair value has not been hedged, and acquired loans that are to be held to maturity, are stated at cost less any amount written off and provisions for impairment.

Loans and advances which are not part of a hedging relationship and are available for sale, are subsequently measured at fair value and gains or losses arising from changes in fair value are recognized directly in "other reserves" under shareholders' equity until the loans or advances are de-recognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the statement of income for the period.

A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance of the timely collection of the full amount of principal and special commission.

Provisions for possible credit losses, including those arising from sovereign risk exposures, are based upon management's assessment of the adequacy of the provisions on a periodic basis. Such assessment takes into account the composition and volume of the loans and advances, the general economic conditions, and the collectibility of the outstanding loans and advances.

For presentation purposes, provision for possible credit losses are deducted from loans and advances.

j) Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts as follows:

- i. For financial assets at amortized cost, the carrying amount of the asset is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the statement of income; and
- ii. For financial assets at fair value, where a loss has been recognized directly under shareholders' equity as a result of the write down of the asset to recoverable amount, the cumulative net loss recognized in shareholders' equity is transferred to the statement of income.

Once a financial asset has been written down to its estimated recoverable amount, commission income is thereafter recognized based on the rate of commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Specific provisions are evaluated individually for all the different types of loans and advances, whereas additional provisions are evaluated on a group basis and additional provisions are created for possible losses where there is objective evidence that potential losses are present at the balance sheet date. These are

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2004 and 2003

Saudi Riyals in Thousands

estimated based upon credit ratings allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio.

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

k) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate is stated at the lower of the net realizable value of due loans and advances and the current fair value of the related properties.

Properties are revalued on a periodic basis and unrealized losses on revaluation and losses or gains on disposal are charged or credited to operating expenses or operating income, as appropriate.

l) Fixed assets

Fixed assets are stated at cost net of accumulated depreciation and amortization. Freehold land is not depreciated. The cost of other fixed assets is depreciated and amortized using the straight line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over lease period or 10 years, whichever is the shorter
Furniture, equipment and vehicles	2.5 to 5 years

m) Deposits and money market placements

All money market deposits, placements and customer deposits are initially recognized at cost, being the fair value of the consideration received. Subsequently all commission bearing deposits and money market placements, other than those held for trading or where fair values have been hedged, are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement. Premiums are amortized and discounts are accreted on a systematic basis to maturity and are taken to special commission income or expense.

Deposits and money market placements that are held for trading are subsequently measured at fair value and any gain or loss from a change in fair value is included in the statement of income in the period in which it arises. Deposits and money market placements for which there is an associated fair value hedge relationship are adjusted for fair value to the extent hedged and the resultant gain or loss is recognized in the statement of income.

For deposits and money market placements carried at amortized cost, any gain or loss is recognized in the statement of income when de-recognized or impaired.

n) Accounting for leases

Leases entered into by the bank (as a lessee) are all operating leases. Payments made under operating leases are charged to the statement of income on a straight line basis over the period of the lease.

o) Cash and cash equivalents

For the purpose of the statement of cash flows, "cash and cash equivalents" are defined as those amounts included in cash, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions maturing within ninety days.

P) End of service benefits

Arab National Bank

NOTES TO THE FINANCIAL STATEMENTS (continued) For the years ended December 31, 2004 and 2003

Saudi Riyals in Thousands

Indemnities payable to employees of the Bank at the end of their services are provided for as required by the Saudi Arabian Labor Law using actuarial valuation. Provision for indemnities is included in other liabilities.

3. Cash and balances with SAMA

	<u>2004</u>	<u>2003</u>
Cash in hand	421,300	440,287
Statutory deposit	1,605,632	1,235,460
Reverse repo	5,027,371	-
Other balances	7,153	2,079
Total	<u><u>7,061,456</u></u>	<u><u>1,677,826</u></u>

In accordance with the Banking Control Law and regulations issued by Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month.

4. Due from banks and other financial institutions

	<u>2004</u>	<u>2003</u>
Current accounts	369,244	275,065
Money market placements	4,362,629	3,919,625
Total	<u><u>4,731,873</u></u>	<u><u>4,194,690</u></u>

5. Investments, net

a) Investment securities are classified as follows:

	<u>Domestic</u>		<u>International</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
i) Held for trading						
Other	-	-	199,059	97,952	199,059	97,952
Held for trading	-	-	199,059	97,952	199,059	97,952
ii) Available for sale						
Fixed rate securities	389,787	403,168	1,311,285	1,520,407	1,701,072	1,923,575
Floating rate notes	-	-	301,414	273,155	301,414	273,155
Equities	121,281	28	-	40	121,281	68
Other	91,485	84,715	743,981	625,409	835,466	710,124
Available for sale, net	<u>602,553</u>	<u>487,911</u>	<u>2,356,680</u>	<u>2,419,011</u>	<u>2,959,233</u>	<u>2,906,922</u>
iii) Originated debt						
Fixed rate securities	11,821,257	12,177,329	93,750	93,525	11,915,007	12,270,854
Floating rate notes	2,165,000	2,100,000	2,075,555	1,263,793	4,240,555	3,363,793
Originated debt, net	<u>13,986,257</u>	<u>14,277,329</u>	<u>2,169,305</u>	<u>1,357,318</u>	<u>16,155,562</u>	<u>15,634,647</u>
iv) Held to maturity						
Fixed rate securities	1,884,356	2,841,598	-	-	1,884,356	2,841,598

Arab National Bank

NOTES TO THE FINANCIAL STATEMENTS (continued) For the years ended December 31, 2004 and 2003

Saudi Riyals in Thousands

Held to maturity, net	<u>1,884,356</u>	<u>2,841,598</u>	<u>-</u>	<u>-</u>	<u>1,884,356</u>	<u>2,841,598</u>
Investments, net	<u>16,473,166</u>	<u>17,606,838</u>	<u>4,725,044</u>	<u>3,874,281</u>	<u>21,198,210</u>	<u>21,481,119</u>

b) The analysis of the composition of investments is as follows.

	2004			2003		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	1,253,399	14,247,036	15,500,435	1,553,463	15,482,564	17,036,027
Floating rate notes	149,086	4,392,883	4,541,969	152,731	3,484,217	3,636,948
Equities	120,281	1,000	121,281	-	68	68
Other	-	1,034,525	1,034,525	-	808,076	808,076
Investments, net	<u>1,522,766</u>	<u>19,675,444</u>	<u>21,198,210</u>	<u>1,706,194</u>	<u>19,774,925</u>	<u>21,481,119</u>

Unquoted fixed and floating rate investments are mainly Saudi Government Development Bonds.

c) The analysis of unrealized gains and losses and fair values of originated debt, net of hedging, and held to maturity investments is as follows:

	2004				2003			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
i) Originated debt								
Fixed rate securities	11,915,007	310,792	8,888	12,216,911	12,270,854	464,715	7,097	12,728,472
Floating rate notes	4,240,555	5,160	1,012	4,244,703	3,363,793	5,648	943	3,368,498
Total	<u>16,155,562</u>	<u>315,952</u>	<u>9,900</u>	<u>16,461,614</u>	<u>15,634,647</u>	<u>470,363</u>	<u>8,040</u>	<u>16,096,970</u>
ii) Held to maturity								
Fixed rate securities	1,884,356	99,523	-	1,983,879	2,841,598	165,942	-	3,007,540
Total	<u>1,884,356</u>	<u>99,523</u>	<u>-</u>	<u>1,983,879</u>	<u>2,841,598</u>	<u>165,942</u>	<u>-</u>	<u>3,007,540</u>

d) The analysis of investments by counterparty is as follows:

	2004	2003
Government and quasi Government	16,919,859	18,042,963
Corporate	183,456	200,113
Banks and other financial institutions	3,885,520	3,153,259
Other	209,375	84,784
Total	<u>21,198,210</u>	<u>21,481,119</u>

Investments include SAR 9,869 million (2003: SAR 5,221 million), which have been pledged under repurchase agreements with other banks and customers. The market value of such investments is SAR 10,132 million (2003: SAR 5,539 million).

Retained earnings as at December 31, 2004 includes SAR 5.4 million (2003: SAR 21.2 million) relating to available for sale investments due to the effect of the implementation of IAS39 which will be transferred to the statement of income upon realization.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2004 and 2003

Saudi Riyals in Thousands

6. Loans and advances, net

a) Originated loans and advances

These comprise the following	<u>2004</u>	<u>2003</u>
Performing:		
Overdrafts	3,653,489	1,833,895
Credit cards	156,285	87,214
Commercial loans	15,113,285	11,613,585
Consumer loans	9,129,828	5,514,733
Other	14,843	5,123
Performing loans and advances, gross	<u>28,067,730</u>	<u>19,054,550</u>
Non performing loans and advances, net	<u>890,233</u>	<u>1,025,716</u>
	<u>28,957,963</u>	<u>20,080,266</u>
Provision for possible credit losses	<u>(1,617,768)</u>	<u>(1,387,803)</u>
Originated loans and advances, net	<u>27,340,195</u>	<u>18,692,463</u>
b) Held to maturity loans and advances		
Performing commercial loans	<u>1,217,772</u>	<u>1,479,770</u>
Loans and advances, net	<u>28,557,967</u>	<u>20,172,233</u>

Non performing loans and advances are disclosed net of accumulated commission in suspense of SAR 528.6 million (2003: SAR 593.3 million).

c) Movements in provision for possible credit losses are as follows:

	<u>2004</u>	<u>2003</u>
Balance at beginning of the year	1,387,803	1,157,967
Provided during the year	321,221	316,790
Bad debts written off	(91,256)	(86,954)
Balance at end of the year	<u>1,617,768</u>	<u>1,387,803</u>

Recoveries of loans and advances previously written off are included in other operating income (note 22).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2004 and 2003

Saudi Riyals in Thousands

d) Economic sector risk concentrations for the loans and advances and provision for possible credit losses are as follows:

	<u>2004</u>	Non performing, net	Credit loss provision	Loan and advances, net
1. Government and quasi Government	37,500	-	-	37,500
2. Banks and other financial institutions	3,205,130	-	-	3,205,130
3. Agriculture and fishing	319,554	3,352	(9,059)	313,847
4. Manufacturing	4,650,578	164,709	(151,797)	4,663,490
5. Mining and quarrying	117,859	29	(281)	117,607
6. Electricity, water, gas and health services	785,885	-	-	785,885
7. Building and construction	1,822,698	293,174	(226,691)	1,889,181
8. Commerce	3,329,318	190,327	(318,388)	3,201,257
9. Transportation and communication	820,889	8,726	(15,541)	814,074
10. Services	510,340	26,143	(32,698)	503,785
11. Consumer loans and credit cards	9,286,113	115,836	(122,294)	9,279,655
12. Other	4,399,638	87,937	(95,248)	4,392,327
	<u>29,285,502</u>	<u>890,233</u>	<u>(971,997)</u>	<u>29,203,738</u>
13. Portfolio provision	-	-	(645,771)	(645,771)
Total	<u><u>29,285,502</u></u>	<u><u>890,233</u></u>	<u><u>(1,617,768)</u></u>	<u><u>28,557,967</u></u>
	<u>2003</u>			
1. Government and quasi Government	615,665	-	-	615,665
2. Banks and other financial institutions	2,877,272	-	(13,583)	2,863,689
3. Agriculture and fishing	177,389	9,291	(8,912)	177,768
4. Manufacturing	3,958,172	139,766	(137,556)	3,960,382
5. Mining and quarrying	104,401	29	(33)	104,397
6. Electricity, water, gas and health services	597,744	-	-	597,744
7. Building and construction	1,219,961	356,527	(198,742)	1,377,746
8. Commerce	2,010,620	257,613	(362,064)	1,906,169
9. Transportation and communication	240,393	7,702	(12,612)	235,483
10. Services	424,948	34,463	(34,651)	424,760
11. Consumer loans and credit cards	5,601,947	111,581	(120,274)	5,593,254
12. Other	2,705,808	108,744	(108,470)	2,706,082
	<u>20,534,320</u>	<u>1,025,716</u>	<u>(996,897)</u>	<u>20,563,139</u>
13. Portfolio provision	-	-	(390,906)	(390,906)
Total	<u><u>20,534,320</u></u>	<u><u>1,025,716</u></u>	<u><u>(1,387,803)</u></u>	<u><u>20,172,233</u></u>

In respect of portfolio provision refer to note 28.

Arab National Bank

NOTES TO THE FINANCIAL STATEMENTS (continued) For the years ended December 31, 2004 and 2003

Saudi Riyals in Thousands

7. Fixed assets, net

	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	Total
Cost				
Balance at beginning of the year	300,232	156,817	410,528	867,577
Additions	60,581	25,359	52,549	138,489
Disposals	(3,776)	(3,311)	(52,944)	(60,031)
Balance at end of the year	357,037	178,865	410,133	946,035
Accumulated depreciation				
Balance at beginning of the year	128,386	105,462	310,645	544,493
Charge for the year	4,832	15,314	39,919	60,065
Disposals	-	(2,362)	(38,576)	(40,938)
Balance at end of the year	133,218	118,414	311,988	563,620
Net book value				
As at December 31, 2004	223,819	60,451	98,145	382,415
As at December 31 2003	171,846	51,355	99,883	323,084

Furniture, equipment and vehicles include information technology related assets.

8. Other assets

	2004	2003
Accrued commission income – banks and other financial institutions	1,819	763
– investments	364,310	363,411
– loans and advances	68,155	38,760
– derivatives	47,405	63,145
– other	471	419
Total accrued commission income	482,160	466,498
Positive fair value of derivatives (note 9)	313,951	477,268
Other	415,856	206,875
Total	1,211,967	1,150,641

9. Derivatives

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for both trading and hedging purposes:

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For currency swaps, fixed commission payments and principal are exchanged in different currencies.

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over the counter market. Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges, and changes in futures contract values are settled daily.

c) Forward rate agreements

Forward rate agreements are individually negotiated commission rate futures that call for a cash settlement for the difference between a contracted commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products.

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counter party and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gaps within the established limits.

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures.

The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including the details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

The tables below show the positive and negative fair values of derivative financial instruments held, together with the notional amounts, analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

Arab National Bank

NOTES TO THE FINANCIAL STATEMENTS (continued) For the years ended December 31, 2004 and 2003

Saudi Riyals in Thousands

Derivative financial instruments

<u>2004</u>	Notional amounts by term to maturity							Monthly average
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	
Held for trading:								
Commission rate swaps	8,551	8,650	825,000	-	825,000	-	-	1,265,725
Forward rate agreements	-	-	375,000	-	375,000	-	-	224,959
Forward foreign exchange contracts	207,798	143,492	16,960,321	7,809,196	9,151,125	-	-	15,854,763
Currency options	42,086	38,247	5,511,724	2,854,422	2,657,302	-	-	7,172,032
Other	1,083	1,083	100,000	-	-	100,000	-	68,335
Held as fair value hedges:								
Commission rate swaps	36,669	44,971	5,369,494	350,000	1,276,623	3,742,871	-	5,416,377
Held as cash flow hedges:								
Commission rate swaps	17,764	-	552,500	-	-	552,500	-	797,031
Total	313,951	236,443	29,694,039	11,013,618	14,285,050	4,395,371	-	30,799,222
<u>2003</u>								
Held for trading:								
Commission rate swaps	37,660	37,468	2,150,750	552,000	773,750	825,000	-	2,754,646
Forward rate agreements	-	-	-	-	-	-	-	91,200
Forward foreign exchange contracts	285,242	223,860	15,680,114	11,169,726	4,456,039	54,349	-	14,941,329
Currency options	113,678	112,749	4,926,480	1,732,054	3,194,426	-	-	5,918,747
Other	21	-	3,739	-	-	3,739	-	28,237
Held as fair value hedges:								
Commission rate swaps	2,129	84,941	4,933,365	250,000	2,665,625	1,700,961	316,779	5,595,338
Held as cash flow hedges:								
Commission rate swaps	38,538	-	752,500	-	200,000	552,500	-	752,500
Total	477,268	459,018	28,446,948	13,703,780	11,289,840	3,136,549	316,779	30,081,997

The tables below show a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value.

<u>2004</u>					Positive fair value	Negative fair value
Description of hedged items	Fair value	Cost	Risk	Hedging instrument		
Fixed commission rate investments	3,722,587	3,642,138	Fair value	Commission rate swap	27,340	44,519
Fixed commission rate loans	1,537,934	1,528,606	Fair value	Commission rate swap	9,329	-
Fixed commission rate deposits	198,298	198,750	Fair value	Commission rate swap	-	452
Floating commission rate investments	554,642	552,500	Cash Flow	Commission rate swap	17,764	-
<u>2003</u>						
Fixed commission rate investments	1,567,168	1,496,974	Fair value	Commission rate swap	1,533	82,492
Fixed commission rate loans	1,428,204	1,430,141	Fair value	Commission rate swap	171	2,108
Fixed commission rate deposits	2,006,334	2,006,250	Fair value	Commission rate swap	425	341
Floating commission rate investments	754,777	752,500	Cash Flow	Commission rate swap	38,538	-

Approximately 52.4% (2003: 72%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 12.6% (2003: 5.6%) of the positive fair value contracts are with any single counter party at the balance sheet date. Derivative activities are mainly carried out under the Bank's treasury banking segment.

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NOTES TO THE FINANCIAL STATEMENTS (continued) For the years ended December 31, 2004 and 2003

Saudi Riyals in Thousands

10. Due to banks and other financial institutions

	<u>2004</u>	<u>2003</u>
Current accounts	228,130	184,731
Money market deposits	9,592,697	8,923,838
Total	<u>9,820,827</u>	<u>9,108,569</u>

11. Customer deposits

	<u>2004</u>	<u>2003</u>
Demand	17,983,622	13,729,555
Saving	128,111	136,405
Time	26,857,412	18,663,400
Other	1,346,565	1,193,634
Total	<u>46,315,710</u>	<u>33,722,994</u>

Time deposits include deposits against sales of securities of SAR 9,261 million (2003: SAR 5,224 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 917 million (2003: SAR 821 million) of margins held for customer commitments.

The above include foreign currency deposits as follows:

	<u>2004</u>	<u>2003</u>
Demand	598,721	694,435
Saving	5,211	6,807
Time	6,189,109	4,344,461
Other	283,032	266,303
Total	<u>7,076,073</u>	<u>5,312,006</u>

12. Other liabilities

	<u>2004</u>	<u>2003</u>
Accrued commission expense – banks and other financial institutions	31,571	31,101
– customer deposits	101,402	74,448
– derivatives	149,328	96,487
– other	357	304
Total accrued commission expense	<u>282,658</u>	<u>202,340</u>
Negative fair value of derivatives (note 9)	236,443	459,018
Proposed gross dividend (note 25)	175,202	415,651
IPO subscription	166,436	-
Other	1,544,093	1,314,977
Total	<u>2,404,832</u>	<u>2,391,986</u>

13. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 40 million shares of SAR 50 each (2003: 36 million). The ownership of the Bank's share capital is as follows:

	<u>2004</u>	<u>2003</u>
Saudi shareholders	60%	60%
Arab Bank PLC - Jordan	40%	40%

In accordance with the shareholders' resolution of the Extraordinary General Assembly Meeting held on March 14, 2004, a bonus issue of 4 million shares at a nominal value of SAR 50 each was made to the existing shareholders, on the basis of 1 bonus share for every 9 shares held, through the capitalization of SAR 200 million from general reserve.

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For the years ended December 31, 2004 and 2003

Saudi Riyals in Thousands

14. Statutory reserve and general reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 200 million has been transferred from 2004 net income (2003: SAR 150 million). The statutory reserve is not currently available for distribution.

On December 19, 2004 the Board of Directors has approved an appropriation of SAR 550 million to general reserve, of which SAR 500 million is to be used for the issuance of 10 million shares, on the bases of one bonus shares for every four shares held, subject to the approval of an Extraordinary General Assembly Meeting.

During 2003, the Board of Directors approved a transfer of SR 200 million from retained earnings to general reserves which was used in a bonus share issue during 2004.

15. Other reserves

<u>2004</u>	<u>Cash flow hedges</u>	<u>Available for sale investments</u>	<u>Total</u>
Balance at beginning of the year	38,538	132,190	170,728
Net change in fair value	(20,775)	66,322	45,547
Transfer to statement of income	-	10,484	10,484
Net movement during the year	(20,775)	76,806	56,031
Balance at end of the year	17,763	208,996	226,759
<u>2003</u>			
Balance at the beginning of the year	41,761	50,793	92,554
Net change in fair value	(3,223)	81,397	78,174
Net movement during the year	(3,223)	81,397	78,174
Balance at end of the year	38,538	132,190	170,728

16. Commitments and contingencies

a) Legal proceedings

As at December 31, 2004 there were legal proceedings of a routine nature outstanding against the Bank. No material provision has been made as related professional legal advice indicates that it is unlikely that any significant loss will event.

b) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances.

Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

Arab National Bank

NOTES TO THE FINANCIAL STATEMENTS (continued) For the years ended December 31, 2004 and 2003

Saudi Riyals in Thousands

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

i) The maturity structure for the Bank's commitments and contingencies is as follows:

	<u>2004</u>	<u>Within 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Letters of credit		1,531,591	399,440	144,636	-	2,075,667
Letters of guarantee		1,224,128	1,904,650	1,008,925	7,122	4,144,825
Acceptances		625,755	89,584	12,014	4,166	731,519
Irrevocable commitments to extend credit		-	653,775	79,103	1,146,511	1,879,389
Other		-	-	-	505,626	505,626
Total		3,381,474	3,047,449	1,244,678	1,663,425	9,337,026
	<u>2003</u>					
Letters of credit		875,622	602,303	150,806	768	1,629,499
Letters of guarantee		1,290,359	1,489,357	797,264	17,355	3,594,335
Acceptances		400,887	433,727	8,994	-	843,608
Irrevocable commitments to extend credit		4,235	86,994	1,125,589	75,095	1,291,913
Other		-	-	-	552,703	552,703
Total		2,571,103	2,612,381	2,082,653	645,921	7,912,058

The outstanding unused portion of commitments as at December 31, 2004 which can be revoked unilaterally at any time by the Bank, amounts to SAR 6,722 million (2003: SAR 4,569 million).

ii) The analysis of commitments and contingencies by counterparty is as follows:

	<u>2004</u>	<u>2003</u>
Government and quasi Government	1,498,530	1,133,714
Corporate	4,973,967	4,505,241
Banks and other financial institutions	1,105,060	969,711
Other	1,759,469	1,303,392
Total	9,337,026	7,912,058

c) Operating lease commitments:

The future minimum lease payments under non cancelable operating leases where the Bank is the lessee are as follows:

	<u>2004</u>	<u>2003</u>
Less than 1 year	37,912	32,953
1 to 5 years	82,103	67,791
Over 5 years	46,931	28,973
Total	166,946	129,717

Arab National Bank

NOTES TO THE FINANCIAL STATEMENTS (continued) For the years ended December 31, 2004 and 2003

Saudi Riyals in Thousands

17. Net special commission income

	<u>2004</u>	<u>2003</u>
Special commission income		
Investments - available for sale	25,577	42,068
- originated debt	742,590	725,669
- held to maturity	136,426	150,073
	<u>904,593</u>	<u>917,810</u>
Due from banks and other financial institutions	47,670	48,292
Loans and advances	1,503,957	1,025,366
Other	90	28
Total	<u>2,456,310</u>	<u>1,991,496</u>

Special commission expense

	<u>2004</u>	<u>2003</u>
Due to banks and other financial institutions	260,089	193,077
Customer deposits	309,943	276,260
Other	-	44
Total	<u>570,032</u>	<u>469,381</u>

18. Fees from banking services, net

	<u>2004</u>	<u>2003</u>
Fee income	616,634	385,909
Fee expenses	194,427	123,763
Net fee income	<u>422,207</u>	<u>262,146</u>

19. Trading income, net

	<u>2004</u>	<u>2003</u>
Derivatives	636	9,954
Other	8,546	4,202
Total	<u>9,182</u>	<u>14,156</u>

20. Dividend income

	<u>2004</u>	<u>2003</u>
Investments available for sale	1,140	-

21. Gains on investments, net

	<u>2004</u>	<u>2003</u>
Available for sale	5,239	1,242
Originated debt	3,177	836
Total	<u>8,416</u>	<u>2,078</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2004 and 2003

Saudi Riyals in Thousands

22. Other operating income

	<u>2004</u>	<u>2003</u>
Gains on disposal of fixed assets	137	296
Gains on disposal of other real estate	-	340
Recoveries of loans and advances previously written off	3,634	3,479
Other	3,830	3,445
Total	<u>7,601</u>	<u>7,560</u>

23. Other operating expenses

	<u>2004</u>	<u>2003</u>
Loss on disposal of other real estate	-	30
Loss on disposal of fixed assets	172	136
Unrealized revaluation loss on other real estate	2,769	288
Other	3,803	-
Total	<u>6,744</u>	<u>454</u>

24. Earnings per share

Basic earnings per share are calculated by dividing the net income for the year by the weighted average number of ordinary shares outstanding during the year of 40 million. The calculation of earnings per share for year 2003 has been adjusted to give effect to the bonus shares issued during 2004.

25. Gross dividend, zakat and income tax

Gross dividend

	<u>2004</u>	<u>2003</u>
Interim dividend	214,830	-
Proposed final dividend	175,202	415,651
Total	<u>390,032</u>	<u>415,651</u>

The final proposed dividend is included in other liabilities.

Zakat

Zakat attributable to Saudi shareholders for the year amounted to SAR 18.0 million (2003: SAR 11.8 million), which is deducted from their share of dividend. The net total dividend for the year to Saudi shareholders is SAR 9 per share (2003: SAR 11 per share), of which SAR 5 (2003:nil) was paid on an interim basis.

Income tax

Income tax payable by the non Saudi shareholder on the current year's share of income is SAR 142.3 million (2003: SAR 94.3 million), which is deducted from its share of the dividend for the year.

26. Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following:

	<u>2004</u>	<u>2003</u>
Cash and balances with SAMA excluding statutory deposit (note 3)	5,455,824	442,366
Due from banks and other financial institutions maturing within ninety days	4,731,873	4,194,690
Total	<u>10,187,697</u>	<u>4,637,056</u>

27. Business segments

For management purposes, the Bank is organized into three major business segments:

Retail banking

Deposit, credit and investment product for individuals.

Corporate banking

Loans, deposits and other credit products for corporate and institutional customers, small to medium sized businesses and London branch.

Treasury banking

Manages the Bank's trading and investment portfolios and the Bank's liquidity, currency and commission rate risk.

Transactions between the business segments are reported as recorded in the Bank's transfer pricing system. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

The Bank's primary business is conducted in the Kingdom of Saudi Arabia with one international branch. However, the total assets, liabilities, commitments and results of operations of this branch are not material to the Bank's overall financial statements.

- a) The Bank's total assets and liabilities as at December 31, 2004 and 2003, and its total operating income, expenses, and net income for years then ended, by business segments are as follows:

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Saudi Riyals in Thousands

<u>2004</u>	Retail banking	Corporate banking	Treasury banking	Total
Total assets	12,382,977	18,594,393	32,358,417	63,335,787
Total liabilities	20,455,480	3,477,132	34,608,757	58,541,369
Total operating income	1,718,803	446,841	262,286	2,427,930
Total operating expenses	862,395	342,365	56,369	1,261,129
Net income	856,408	104,476	205,917	1,166,801

2003

Total assets	7,717,771	14,497,205	26,985,914	49,200,890
Total liabilities	16,332,034	3,298,549	25,592,966	45,223,549
Total operating income	1,262,580	384,125	253,725	1,900,430
Total operating expenses	796,610	283,377	53,927	1,133,914
Net income	465,970	100,748	199,798	766,516

b) The Bank's credit exposure by business segments is as follows:

<u>2004</u>	Retail banking	Corporate banking	Treasury banking	Total
Balance sheet assets	11,485,348	18,146,856	31,496,002	61,128,206
Commitments and contingencies	456,420	3,955,153	-	4,411,573
Derivatives	-	19,149	569,353	588,502

2003

Balance sheet assets	6,948,448	14,097,918	24,801,676	45,848,042
Commitments and contingencies	532,277	3,356,707	-	3,888,984
Derivatives	-	75,998	426,380	502,378

Credit exposure comprises the carrying value of balance sheet assets excluding cash, fixed assets, other real estate, other assets and the credit equivalent value of commitments, contingencies and derivatives.

28. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. In certain cases the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographical location.

Arab National Bank

NOTES TO THE FINANCIAL STATEMENTS (continued) For the years ended December 31, 2004 and 2003

Saudi Riyals in Thousands

The Bank seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate.

The debt securities included in investment portfolio are mainly sovereign risk. Analysis of investments by counterparty is provided in note 5. For details of the composition of the loans and advances refer to note 6. Information on credit risk relating to derivative instruments is provided in note 9, and for commitments and contingencies in note 16.

The Bank uses an internal risk classification system and assigns quality ratings based upon the degree of risk and the likelihood of orderly repayment. The evaluation of credit is conducted periodically by an independent credit review unit, and is based upon the fundamentals of each credit, which includes an objective evaluation of the borrower, character, activity, cash flow, capital structure, security, quality of management, and delinquency. A satisfactory classification is given to all credits that exhibit neither potential nor any well defined weaknesses, and are subject to portfolio provision allocation. Watch list classification includes credits that have experienced recent potential weaknesses and where the bank's risk is perceived to be currently protected but potentially weak. Provisions for watch list credits are made based on a judgment of the likelihood of deterioration of the repayment prospect. Classified credits are credits that exhibit weaknesses and are classified into three risk categories; substandard, doubtful and loss. Provisions on classified credits are made on an aging basis based on days past due within three time buckets; 90, 180 and 360 days. Minimum specific provisions are applicable to each bucket. Special commission income on all loan facilities, regardless of risk class, is suspended at 90 days past due, and loans are classified as non performing without regard to collateral, obligors' capacity or the likelihood of ultimate collection.

29. Geographical concentration

- a) The distributions by geographical region for major categories of assets, liabilities, commitments and contingencies and credit exposure are as follows:

<u>2004</u>	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	7,060,412	-	1,044	-	-	-	-	7,061,456
Due from banks and other financial institutions	985,000	893,927	2,522,820	108,507	-	65,557	156,062	4,731,873
Investments, net	16,473,166	430,829	3,026,917	1,267,298	-	-	-	21,198,210
Loans and advances, net	26,319,919	1,811,746	300,519	-	-	-	125,783	28,557,967
Total	50,838,497	3,136,502	5,851,300	1,375,805	-	65,557	281,845	61,549,506
Liabilities								
Due to banks and other financial institutions	5,059,056	3,388,234	1,200,474	46,403	-	12,016	114,644	9,820,827
Customer deposits	45,888,022	246,455	177,629	1,100	-	717	1,787	46,315,710
Total	50,947,078	3,634,689	1,378,103	47,503	-	12,733	116,431	56,136,537
Commitments and contingencies	5,704,888	833,347	1,292,629	583,032	12,721	811,161	99,248	9,337,026
Credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	2,821,046	412,950	558,775	194,800	3,636	370,800	49,566	4,411,573
Derivatives	238,165	9,436	253,397	85,254	-	2,250	-	588,502

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Saudi Riyals in Thousands

2003	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	1,675,847	-	1,979	-	-	-	-	1,677,826
Due from banks and other financial institutions	300,000	537,300	3,248,326	60,844	-	46,246	1,974	4,194,690
Investments, net	17,606,838	384,150	1,850,100	1,640,031	-	-	-	21,481,119
Loans and advances, net	17,776,381	1,670,364	725,488	-	-	-	-	20,172,233
Total	37,359,066	2,591,814	5,825,893	1,700,875	-	46,246	1,974	47,525,868
Liabilities								
Due to banks and other financial institutions	3,825,941	4,045,537	1,133,032	80,421	-	22,294	1,344	9,108,569
Customer deposits	33,624,481	41,606	44,845	745	-	-	11,317	33,722,994
Total	37,450,422	4,087,143	1,177,877	81,166	-	22,294	12,661	42,831,563
Commitments and contingencies	4,762,411	652,829	1,069,495	421,674	21,846	872,460	111,343	7,912,058
Credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	2,315,926	345,081	537,519	178,602	7,479	449,829	54,548	3,888,984
Derivatives	168,343	6,449	261,934	65,401	-	27	224	502,378

Balances shown in "Due to banks and other financial institutions", under the Kingdom of Saudi Arabia, include deposits of SAR (nil) (2003: SAR 300 million), on account of the foreign branches of local banks.

b) The distributions by geographical concentration of non performing loans and advances and provision for possible credit losses are as follows:

	Non performing loans, net		Provision for possible credit losses	
	2004	2003	2004	2003
Kingdom of Saudi Arabia	890,233	1,025,638	1,587,234	1,379,236
Europe	-	78	30,534	8,567
Total	890,233	1,025,716	1,617,768	1,387,803

30. Currency risk

The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra day positions, which are monitored daily. The Bank had the following significant net exposures denominated in foreign currencies:

	2004 Long	2003 Long (short)
US Dollar	692,299	308,640
Euro	116	113
Pound Sterling	13,222	(34)
Other	9,340	16,953

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Saudi Riyals in Thousands

31. Commission rate risk

Commission sensitivity of assets, liabilities and off balance sheet items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows.

The table below summarizes the Bank's exposure to commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or maturity dates. The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

<u>2004</u>	<u>Within 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Non commission bearing</u>	<u>Total</u>	<u>Effective commission rate %</u>
Assets							
Cash and balances with SAMA	5,027,371	-	-	-	2,034,085	7,061,456	
Due from banks and other financial institutions	4,362,629	-	-	-	369,244	4,731,873	2.18
Investments, net	5,093,171	3,595,992	7,125,183	4,181,680	1,202,184	21,198,210	4.55
Loans and advances, net	14,437,680	6,343,068	5,988,503	1,788,716	-	28,557,967	6.68
Other real estate	-	-	-	-	191,899	191,899	
Fixed assets, net	-	-	-	-	382,415	382,415	
Other assets	-	-	-	-	1,211,967	1,211,967	
Total assets	28,920,851	9,939,060	13,113,686	5,970,396	5,391,794	63,335,787	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	8,082,285	1,510,412	-	-	228,130	9,820,827	2.41
Customer deposits	19,554,817	7,195,868	971,397	-	18,593,628	46,315,710	1.72
Other liabilities	-	-	-	-	2,404,832	2,404,832	
Shareholders' equity	-	-	-	-	4,794,418	4,794,418	
Total Liabilities and shareholders' equity	27,637,102	8,706,280	971,397	-	26,021,008	63,335,787	
On balance sheet gap	1,283,749	1,232,780	12,142,289	5,970,396	(20,629,214)		
Off balance sheet gap	4,421,993	(1,231,622)	(2,430,085)	(760,286)	-		
Total commission rate sensitivity gap	5,705,742	1,158	9,712,204	5,210,110	(20,629,214)		
Cumulative commission rate sensitivity gap	5,705,742	5,706,900	15,419,104	20,629,214	-		

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Saudi Riyals in Thousands

<u>2003</u>	<u>Within 3 Months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Non commission bearing</u>	<u>Total</u>	<u>Effective commission rate %</u>
Assets							
Cash and balances with SAMA	-	-	-	-	1,677,826	1,677,826	
Due from banks and other financial institutions	3,919,625	-	-	-	275,065	4,194,690	1.25
Investments, net	3,380,943	1,516,136	10,443,858	5,233,760	906,422	21,481,119	4.78
Loans and advances, net	10,219,486	5,297,183	4,026,297	588,192	41,075	20,172,233	6.02
Other real estate	-	-	-	-	201,297	201,297	
Fixed assets, net	-	-	-	-	323,084	323,084	
Other assets	-	-	-	-	1,150,641	1,150,641	
Total assets	17,520,054	6,813,319	14,470,155	5,821,952	4,575,410	49,200,890	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	6,976,943	1,946,894	-	-	184,732	9,108,569	1.66
Customer deposits	11,596,771	6,419,318	841,530	-	14,865,375	33,722,994	1.79
Other liabilities	-	-	-	-	2,391,986	2,391,986	
Shareholders' equity	-	-	-	-	3,977,341	3,977,341	
Total Liabilities and shareholders' equity	18,573,714	8,366,212	841,530	-	21,419,434	49,200,890	
On balance sheet gap	(1,053,660)	(1,552,893)	13,628,625	5,821,952	(16,844,024)		
Off balance sheet gap	272,115	1,193,125	(1,148,461)	(316,779)	-		
Total commission rate sensitivity gap	(781,545)	(359,768)	12,480,164	5,505,173	(16,844,024)		
Cumulative commission rate sensitivity gap	(781,545)	(1,141,313)	11,338,851	16,844,024	-		

The off-balance sheet gap represents the net notional amounts of derivative financial instruments, which are used to manage the commission rate risk.

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

32. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to become unavailable immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents, and readily marketable securities.

The table below summarizes the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date, and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

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In accordance with Banking Control Laws and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 2% of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The maturity profile of the assets and liabilities is as follows:

<u>2004</u>	<u>Within 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Over 5 Years</u>	<u>No fixed maturity</u>	<u>Total</u>
Assets						
Cash and balances with SAMA	5,027,371	-	-	-	2,034,085	7,061,456
Due from banks and other financial institutions	4,362,629	-	-	-	369,244	4,731,873
Investments, net	1,136,999	3,098,433	10,196,902	5,563,292	1,202,584	21,198,210
Loans and advances, net	7,331,794	5,458,466	8,859,253	3,066,257	3,842,197	28,557,967
Other real estate	-	-	-	-	191,899	191,899
Fixed assets, net	-	-	-	-	382,415	382,415
Other assets	-	-	-	-	1,211,967	1,211,967
Total assets	17,858,793	8,556,899	19,056,155	8,629,549	9,234,391	63,335,787
Liabilities and shareholders' equity						
Due to banks and other financial institutions	8,082,285	1,510,412	-	-	228,130	9,820,827
Customer deposits	19,148,755	7,195,810	971,397	-	18,999,748	46,315,710
Other liabilities	-	-	-	-	2,404,832	2,404,832
Shareholders' equity	-	-	-	-	4,794,418	4,794,418
Total liabilities and shareholders' equity	27,231,040	8,706,222	971,397	-	26,427,128	63,335,787
<u>2003</u>						
Assets						
Cash and balances with SAMA	-	-	-	-	1,677,826	1,677,826
Due from banks and other financial institutions	3,919,625	-	-	-	275,065	4,194,690
Investments, net	138,000	1,180,511	13,214,290	6,041,896	906,422	21,481,119
Loans and advances, net	5,344,486	4,331,640	6,804,483	1,533,891	2,157,733	20,172,233
Other real estate	-	-	-	-	201,297	201,297
Fixed assets, net	-	-	-	-	323,084	323,084
Other assets	-	-	-	-	1,150,641	1,150,641
Total assets	9,402,111	5,512,151	20,018,773	7,575,787	6,692,068	49,200,890
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,976,944	1,946,894	-	-	184,731	9,108,569
Customer deposits	11,515,047	6,408,404	841,530	-	14,958,013	33,722,994
Other liabilities	-	-	-	-	2,391,986	2,391,986
Shareholders' equity	-	-	-	-	3,977,341	3,977,341
Total liabilities and shareholders' equity	18,491,991	8,355,298	841,530	-	21,512,071	49,200,890

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33. Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently differences can arise between carrying values and fair value estimates.

The fair values of on balance sheet financial instruments, except for originated debt securities, held to maturity investments, loans and advances and customer deposits, are not significantly different from the carrying values included in the financial statements. The estimated fair values of originated debt and held to maturity investments are based on quoted market prices when available or pricing models in the case of certain fixed rate bonds. The fair values of these investments are disclosed in note 5. It is not practical to determine the fair value of loans and advances and customer deposits with sufficient reliability.

34. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by the limits set by the Banking Control Laws and regulations issued by SAMA. The balances at December 31 resulting from such transactions included in the financial statements are as follows:

	2004	2003
Arab Bank PLC, Jordan		
Due from banks and other financial institutions	696,270	520,355
Due to banks and other financial institutions	1,485,967	2,268,917
Derivatives (at fair value)	16	3,271
Commitments and contingencies	914,763	665,816
Directors, other major shareholders and their affiliates:		
Loans and advances	1,210,406	666,830
Customer deposits	3,806,375	3,646,005
Commitments and contingencies	371,247	253,120
Derivatives (at fair value)	10,476	-
Bank's mutual funds:		
Investments	91,485	84,715
Loans and advances	16,124	196
Customer deposits	105,794	588,305

Other major shareholders represent shareholdings (excluding the non Saudi shareholder) of more than 5% of the Bank's issued share capital.

Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	2004	2003
Special commission income	41,074	24,230
Special commission expense	106,242	115,590
Fees from banking services	23,232	20,165
Directors' remuneration	2,024	2,099

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NOTES TO THE FINANCIAL STATEMENTS (continued) For the years ended December 31, 2004 and 2003

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35. Capital adequacy

The Bank monitors the adequacy of its capital, using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.

	<u>Capital</u>		<u>Ratio %</u>	
	2004	2003	2004	2003
Tier 1	4,794,418	3,977,341	14.2	17.8
Tier 1 + Tier 2	5,217,842	4,255,902	15.4	19.1

	<u>Risk weighted assets</u>					
	2004			2003		
	<u>Carrying value / Notional</u>	<u>Credit equivalent</u>	<u>Risk weighted assets</u>	<u>Carrying value / Notional</u>	<u>Credit equivalent</u>	<u>Risk weighted assets</u>
<u>Balance sheets assets</u>						
0 %	24,805,413		-	24,539,198	-	-
20 %	9,881,010		1,976,202	6,451,355	-	1,290,271
100 %	28,649,364		28,649,364	18,210,337	-	18,210,337
Total	63,335,787		30,625,566	49,200,890		19,500,608
<u>Commitments and contingencies</u>						
0 %	414,624	193,702	-	1,873,736	917,234	-
20 %	2,980,475	1,405,582	281,116	913,179	400,803	80,160
100 %	5,941,927	2,812,289	2,812,289	5,125,143	2,570,947	2,570,947
Total	9,337,026	4,411,573	3,093,405	7,912,058	3,888,984	2,651,107
<u>Derivatives</u>						
20 %	24,182,314	464,397	92,879	22,993,390	393,407	78,681
50 %	5,511,724	124,105	62,053	5,453,558	108,971	54,485
Total	29,694,038	588,502	154,932	28,446,948	502,378	133,166
Total			33,873,903			22,284,881

36. Investment management services

The Bank offers investment services to its customers, which include management of certain investment funds in consultation with professional investment advisors. The financial statements of these funds are not consolidated with these financial statements. However, the Bank's share of these funds is included in available for sale investments and fees earned are disclosed under related party transactions.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and, accordingly, are not included in the financial statements.

37. Comparative figures

Certain prior year figures have been reclassified to conform with current year's presentation.

38. Board of directors approval

The financial statements were approved by the Board of Directors on 1/12/1425H (January 12, 2005).